

**REPORT OF THE AUDIT OF THE  
MCCREARY COUNTY  
SHERIFF'S SETTLEMENT - 2010 TAXES**

**For The Period  
April 16, 2010 Through April 15, 2011**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**209 ST. CLAIR STREET  
FRANKFORT, KY 40601-1817  
TELEPHONE 502.564.5841  
FACSIMILE 502.564.2912**



**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**MCCREARY COUNTY**  
**SHERIFF'S SETTLEMENT - 2010 TAXES**

**For The Period**  
**April 16, 2010 Through April 15, 2011**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2010 Taxes for the McCreary County Sheriff for the period April 16, 2010 through April 15, 2011. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$3,096,553 for the districts for 2010 taxes, retaining commissions of \$102,371 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,988,090 to the districts for 2010 taxes. Taxes of \$82 are due to the districts from the Sheriff and refunds of \$129 are due to the Sheriff from the taxing districts.

**Report Comment:**

2010-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Accounting Functions

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Doug Stephens, McCreary County Judge/Executive

Honorable Gus H. Skinner Jr., McCreary County Sheriff

Members of the McCreary County Fiscal Court

Independent Auditor's Report

We have audited the McCreary County Sheriff's Settlement - 2010 Taxes for the period April 16, 2010 through April 15, 2011. This tax settlement is the responsibility of the McCreary County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the McCreary County Sheriff's taxes charged, credited, and paid for the period April 16, 2010 through April 15, 2011, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated August 31, 2011 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Doug Stephens, McCreary County Judge/Executive

Honorable Gus H. Skinner Jr., McCreary County Sheriff

Members of the McCreary County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

2010-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Accounting Functions

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

August 31, 2011

MCCREARY COUNTY  
GUS H. SKINNER JR., SHERIFF  
SHERIFF'S SETTLEMENT - 2010 TAXES

For The Period April 16, 2010 Through April 15, 2011

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 319,536	\$ 796,365	\$ 1,345,415	\$ 410,352
Tangible Personal Property	22,359	24,113	43,841	37,613
Fire Protection	1,043			
Franchise Taxes	59,710	90,745	125,979	
Additional Billings	258	503	1,062	331
Unmined Coal - 2010 Taxes	66	162	277	85
Oil and Gas Property Taxes	2,353	3,319	9,909	3,022
Penalties	4,092	9,824	16,740	5,092
Adjusted to Sheriff's Receipt	(350)	(374)	(1,470)	(480)
Gross Chargeable to Sheriff	<u>409,067</u>	<u>924,657</u>	<u>1,541,753</u>	<u>456,015</u>
<u>Credits</u>				
Exonerations	2,215	5,438	9,302	2,837
Discounts	4,430	10,337	17,308	5,545
Delinquents:				
Real Estate	19,322	47,417	81,196	24,765
Tangible Personal Property	<u>717</u>	<u>1,124</u>	<u>1,405</u>	<u>1,581</u>
Total Credits	<u>26,684</u>	<u>64,316</u>	<u>109,211</u>	<u>34,728</u>
Taxes Collected	382,383	860,341	1,432,542	421,287
Less: Commissions *	<u>16,251</u>	<u>25,240</u>	<u>42,976</u>	<u>17,904</u>
Taxes Due	366,132	835,101	1,389,566	403,383
Taxes Paid	365,431	833,520	1,386,657	402,482
Refunds (Current and Prior Year)	<u>701</u>	<u>1,628</u>	<u>2,909</u>	<u>901</u>
Refunds Due Sheriff		**		
as of Completion of Audit	<u>\$ 0</u>	<u>\$ (47)</u>	<u>\$ 0</u>	<u>\$ 0</u>

\* and \*\* See Next Page.

The accompanying notes are an integral part of this financial statement.

MCCREARY COUNTY  
GUS H. SKINNER JR., SHERIFF  
SHERIFF'S SETTLEMENT - 2010 TAXES  
For The Period April 16, 2010 Through April 15, 2011  
(Continued)

\* Commissions:

4.25% on	\$	1,315,551
3% on	\$	1,432,541
1% on	\$	348,461

\*\* Special Taxing Districts:

North McCreary Fire District	\$	12
South McCreary Fire District		(129)
Eagle Sawyer Fire District		70
		<hr/>

Due Districts or		
(Refund Due Sheriff)	\$	(47)
		<hr/> <hr/>

MCCREARY COUNTY  
NOTES TO FINANCIAL STATEMENT

April 15, 2011

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The McCreary County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

MCCREARY COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 15, 2011  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The McCreary County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 15, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2010. Property taxes were billed to finance governmental services for the year ended June 30, 2011. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 20, 2010 through April 15, 2011.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2010. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 21, 2011 through April 15, 2011.

C. Oil & Gas Property Taxes

The tangible property tax assessments were levied as of January 1, 2010. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was April 16, 2010 through April 15, 2011.

Note 4. Interest Income

The McCreary County Sheriff earned \$178 as interest income on 2010 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The McCreary County Sheriff collected \$30,040 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office. As of August 31, 2011, the Sheriff owed \$130 in 10% add-on fees to his fee account.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Doug Stephens, McCreary County Judge/Executive  
Honorable Gus H. Skinner Jr., McCreary County Sheriff  
Members of the McCreary County Fiscal Court

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the McCreary County Sheriff's Settlement - 2010 Taxes for the period April 16, 2010 through April 15, 2011, and have issued our report thereon dated August 31, 2011. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the McCreary County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation as item 2010-01 to be a material weakness.



Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the McCreary County Sheriff's Settlement - 2010 Taxes for the period April 16, 2010 through April 15, 2011, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The McCreary County Sheriff's response to the finding identified in our audit is described in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the McCreary County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen  
Auditor of Public Accounts

August 31, 2011

COMMENT AND RECOMMENDATION



MCCREARY COUNTY  
GUS H. SKINNER JR., SHERIFF  
COMMENT AND RECOMMENDATION

For The Period April 16, 2010 Through April 15, 2011

INTERNAL CONTROL - MATERIAL WEAKNESS:

2010-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Accounting Functions

A lack of adequate segregation of duties exists over all accounting functions. During our review of internal controls, we noted the Sheriff's bookkeeper opens incoming mail, collects tax payments, prepares deposits, prepares daily tax collection journals, and prepares monthly tax reports.

A limited budget places restrictions on the number of employees the Sheriff can hire. When faced with a limited number of staff, strong compensating controls should be in place to offset the lack of segregation of duties.

Lack of oversight could result in misappropriation of assets and/or inaccurate financial reporting to external agencies such as the Department of Revenue and other taxing districts, which could occur but go undetected.

A segregation of duties over various accounting functions, such as opening mail, collecting cash, preparing bank deposits, preparing monthly reports or the implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect against misappropriation of assets and/or inaccurate financial reporting, the Sheriff should separate the duties involving the opening of mail, collecting and depositing of cash, and preparing the monthly tax reports. If, due to a limited number of staff, that is not feasible, strong oversight over these areas should occur and involve an employee not currently performing any of those functions. Additionally, the Sheriff could provide this oversight. If the Sheriff does implement compensating controls, these should be documented on the appropriate source documents.

*Sheriff's Response: Due to low budget, unable to hire additional staff.*

Auditor Reply: Our recommendations to separate these duties or to provide strong oversight over these areas would not require the hiring of additional staff.

